

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 1999-346-S - ORDER NO. 2000-0433  
MAY 15, 2000

IN RE: Application of T. J. Barnwell Utility, Inc. for ) ORDER APPROVING  
Approval of an Increase in its Rates and ) RATES AND CHARGES  
Charges for Sewer Service to Pleasant Point )  
Plantation, Beaufort County, South Carolina. )

**I. INTRODUCTION**

This matter comes before the Public Service Commission of South Carolina (the Commission) on the Application of T.J. Barnwell Utilities, Inc. (Barnwell or the Company) for approval of an increase in its sewer rates. Barnwell serves the Pleasant Point Plantation on Lady's Island, Beaufort County, South Carolina. The Company is presently operating under rates and charges approved by Commission Order No. 92-913, issued October 20, 1992 in Docket No. 92-295-S. Barnwell presently serves 102 residential and one commercial customer and has sewer available to another 100 lots.

Pursuant to the instructions of the Commission's Executive Director, the Company published a Notice of Filing, one time, in a newspaper of general circulation in the Company's service area, and served a copy of said Notice on all affected customers in the service area. Barnwell furnished affidavits to show that it had complied with the instructions of the Executive Director. A Petition to Intervene was received from the Consumer Advocate for the State of South Carolina (the Consumer Advocate).

Accordingly, a hearing was held on May 3, 2000 at 10:30 AM in the offices of the Commission. As per State law, a panel, consisting of Commissioners Bradley, Mitchell, and Atkins heard the case. Chairman Bradley presided. The Company was represented by Anne Conder, Esquire. Barnwell presented the testimony of David Hornsby and R. Arnold Ellison, Jr. The Consumer Advocate was represented by Charles M. Knight, Esquire and Elliott F. Elam, Jr., Esquire. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Steve W. Gunter and Charles A. Creech. Ron Garron appeared as a public witness.

## **II. SUMMARY OF TESTIMONY**

David Hornsby, President of T.J. Barnwell Utilities, Inc. testified that when his company took over Barnwell, it was necessary to make major upgrades to the treatment plant and totally replace four of the pump stations in order to come into compliance with DHEC regulations. The Company chose to wait to seek a rate increase until it had completed the major renovations. Hornsby noted that the \$18.00 per month rate gave revenue of approximately \$20,000, and that this was not adequate to cover the operating expenses. Hornsby stated that availability charges of \$20.00 per month for lots are set by deed restriction. Hornsby noted that the Company has committed all availability charges collected to the utility to help cover operating expenses. Hornsby stated that the Company had not had a rate increase since 1992, and that there is not enough revenue from the present rate to cover daily operating expenses.

R. Arnold Ellison, Jr., a consultant for Barnwell, also testified for the Company. Ellison prepared the rate study for submission to the Commission. Ellison stated that in

addition to the present 102 residential and one commercial customers served, and the availability of service to another 100 lots, new development will eventually expand the customer base to approximately 350-400 residential units. Ellison further noted that the new rates requested in this case result from the net loss of \$46,811 for the test year 1998 that gave a negative operating margin of (96.2) percent. The owners of the Company made a commitment to upgrade plant and the collection system. This work involved total refurbishing of the treatment plant with new blowers, diffusers, controls, and a larger clarifier, plus a seven-day holding pond and a new irrigation pump station for effluent disposal on the adjacent golf course. With regard to the collection system, four pump stations have been completely replaced and numerous repairs have been made to the sewer mains to stop infiltration of ground water into the system, according to Ellison. The foregoing work totaled over \$730,000. Ellison further noted that the treatment plant upgrade provides an expanded capacity from 100,000 gallons per day to 120,000 gallons per day.

Ellison states that Barnwell has elected to seek a rate that will cover the operating expenses of the utility, net of depreciation. If availability charges are included in the revenue, the recommended Company rate increase comes to \$36.00 per month, reflecting a 100% rate increase to residential customers.

Steve A. Gunter of the Commission's Audit Department also appeared and testified. Gunter's Exhibit (Hearing Exhibit 2) showed that the Company had an as adjusted negative operating margin of (76.21%) before the increase. According to Gunter, even if the entire increase was granted, the Company will still end up with a negative

operating margin of (18.81%). With regard to accounting adjustments, since the Company and Staff reclassified tap fees of \$2,450 from Operating Revenue to Contributions in Aid of Construction, Staff has proposed to capitalize the costs associated with the installation of taps, or a reduction to O & M expenses of \$(1,009). Staff also annualized depreciation expense for actual expenditures for sewer plant improvements after the test year ended using approved depreciation rates. The Company's adjustment, according to Gunter, was based on estimated costs at completion.

Charles A. Creech of the Commission's Utilities Department also testified. Creech noted that if the Company was granted the additional revenues requested by it, it would receive a 115.71% revenue increase. Staff also treated availability fees as revenue, based on the Company committing all such fees to the operation of the utility. Creech recommended that the Company bill monthly in arrears if the rates are approved as requested, instead of quarterly as is presently done, or at least give the customer the option of paying monthly or quarterly in arrears.

### **III. FINDINGS OF FACT AND CONCLUSIONS OF LAW**

1. T.J. Barnwell Utilities, Inc. is a sewer utility under the jurisdiction of the Commission, serving the Pleasant Point Plantation Subdivision on Lady's Island, Beaufort County, South Carolina. (Testimony of Ellison)

2. The Company serves 102 residential customers and one commercial customer, and has sewer service available to another 100 lots at the present time. (Testimony of Ellison)

3. Barnwell is seeking a rate increase in its sewer charges. The Company is requesting approval for an increase from \$18.00 to \$36.00 per month rate for residential customers, and from \$18.00 to \$40.00 per month for the commercial customer. Further, Barnwell is requesting an increase in its tap fee from \$350 per Single Family Equivalent to \$650 per residential unit and \$900 per commercial unit. (Testimony of Ellison and Creech)

4. The Commission Staff's adjustments should be and are hereby adopted in toto, and are appropriate as explained in the discussion above, and as noted in Staff testimony. Even after adoption of all adjustments, if the Commission granted the entire rate increase request of the Company, the operating margin would be (18.81%). (Testimony of Ellison and Gunter)

5. The testimony presented justifies our granting of the entire rate increase requested by the Company, since it is clear that Barnwell is presently operating, and will continue to operate at a loss, even with the granted increase. The Company has certainly put a lot of funds into improving the physical plant. (Testimony of Ellison and Gunter)

6. There is no statutory authority prescribing the method which this Commission must utilize to determine the lawfulness of the rate of a public utility. For a sewer utility whose rate base has been substantially reduced by customer donations, tap fees, contributions in aid of construction, and book value in excess of investment, the Commission may decide to use the "operating ratio" and/or "operating margin" method for determining just and reasonable rates. The operating ratio is the percentage obtained by dividing total operating expenses by operating revenues; the operating margin is

determined by dividing the total operating income for return by the total operating revenues of the utility. The Commission concludes that the use of the operating margin is appropriate in this case.

7. The Commission is mindful of the need to balance the respective interests of the Company and of the consumer. It is incumbent upon this Commission to consider not only the revenue requirement of the Company, but also the proposed price for the water treatment, the quality of the water service, and the effect of the proposed rates upon the consumers.

8. Based upon all of these considerations, the Commission determines that the Company should have the opportunity to earn a (18.81%) operating margin on its sewer operations. In order to have a reasonable opportunity to earn a (18.81%) operating margin, the Company will need to produce annual total operating revenues of \$65,802. As per the Staff testimony, \$22,696 of these revenues shall be obtained through availability fees, and \$43,092 shall be obtained through the rates and charges approved by us below. (Testimony of Gunter and Creech)

**TABLE A**

**OPERATING MARGIN**

Operating Revenues	\$65,802
Operating Expenses	<u>78,180</u>
Net Loss for Return	<u>(12,378)</u>
Operating Margin	<u>(18.81%)</u>

9. In order to earn \$43,092 in revenue, we hold that the Company's proposed rates should be granted. These are \$36.00 per month per residential customer, and \$40.00 per month for each commercial customer. Likewise, we approve the requested tap fee of \$650.00 per residential unit and \$900.00 per commercial unit.

10. Accordingly, it is ordered that the rates attached in Appendix A are hereby approved for service rendered on or after the date of this Order.

11. It is ordered that if the approved schedule is not placed in effect within three (3) months after the date of this Order, the approved schedule shall not be charged without written permission of the Commission.

12. It is further ordered that the Company maintain its books and records for sewer operations in accordance with the NARUC Uniform System of Accounts for sewer utilities as adopted by this Commission.

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13. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)



## APPENDIX A

T.J. BARNWELL UTILITIES, INC.  
BOX 15967  
SAVANNAH, GA  
(912) 921-7776

DOCKET NO. 1999-346-S  
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### Sewage Service Fee

<u>Class of Customers</u>	<u>Monthly Charge per Unit</u>
Residential	\$ 36.00
Commercial	\$ 40.00

### Sewer Tap Fee

Residential	\$650.00 per unit
Commercial	\$900.00 per unit

### Disconnect/Reconnect and Late Payment Fees

Disconnection and Reconnection Charge (PSCSC Rule 103-532.4)	\$250.00 *
Late Payment Charge (PSCSC Rule 103-532.2)	1½ % of unpaid balance

### Other Charges

New Customer Set-up	\$ 25.00 *
Notification of Disconnection	\$ 4.00 *

All other rates and charges to be negotiated and agreements filed with the Commission for approval

- Rates previously approved by the PSCSC.